

How Belligerent Nations Now Stand Upon the Battlefields of Finance

Enormous Debts Incurred in Four Years of War, May Strangle the Enemy, While Presenting Serious Problems, Now and After the War, for All Countries Engaged in The Exhausting and Titanic Struggle

TO CHILDREN eating chocolate candy a fundamental principle about the nature of things is frequently revealed for the first time. They learn by experiment that, though one piece of candy is good, two pieces are better and five still better, fifteen — let us say — are not good at all, for they produce no pleasure, but a stomach ache. In all things there is a margin beyond which an increase in the units will not result in a gain of satisfaction or of efficacy. Economists call this principle the law of diminishing utility. It applies to steam engines and money accumulations and Chautauqua lectures as well as to chocolate.

War finance illustrates the principle clearly. The debts of the nations which are bearing the brunt of this war have in the aggregate long ago passed the point beyond which the human mind can appreciate changes. The enormity of the financial obligations has proved an anæsthesia to the popular mind, which no longer can be very much impressed by an increase of a few tens of billions of dollars. The plain citizen is completely at a loss to understand the meaning of financial operations on a scale never before attempted. And the specialists are hardly more certain of the direction along which the unprecedented rolling up of debt is leading. The accumulated experience of all mankind in things financial offers little light or guidance. Until the war ends the men charged with managing the finances of the belligerents will probably continue along the general paths they have followed for the first four years. After the war the colossal need of economic statesmen will arise. Problems of funding the floating debt, refunding maturing long obligations, meeting the ever-rising interest charges without depriving the nations of the resources they need for reconstruction, halting inflation and stabilizing the value of paper currency — these and a hundred others will challenge the best of thought and originality in the way of economic planning that the people of the world can contribute.

The Economic Staying Power of Nations

Meantime, aside from the desire of each nation to make its war financing as sound as possible, the chief interest of the belligerents is focussed on the economic staying power of its group of adversaries. If the nations of Europe were playing up to form were fulfilling the pre-war prophecies of economists and bankers — few of them would be able to face a fifth year of world strife without ghastly fears as to where the money was coming from. Financial observers are impressed by the striking fact that, no matter how near some of the present belligerents may be to economic ruin, they are still able to retain the outward forms of solvency and have as yet averted the long-anticipated collapse.

From the Allied standpoint, the burning question is how long can the Teutonic alliance go before an economic breakdown will come. Observers do not seem to be able to reach any agreement on this subject. Some say that Germany and her helpmates will be able to finance the war until the bitter end, and then she will be ruined unless able to exact large indemnities from her enemies. Others hold that Germany and her allies have already exceeded their financial limits, and only the stimulus of war activity is postponing the collapse which may come at any moment. This view is not held only in irresponsibly quarters. Andrew Bonar Law, Chancellor of the Exchequer in Great Britain, in presenting the budget for the current year, said bankruptcy seemed imminent in Germany. After recounting the broad details of Germany's balance sheet, Mr. Bonar Law said: "If that were our position, I would say that bankruptcy was not very far distant."

On the other hand, Herr Rudolph Haverstein, president of the Reichsbank of Germany, recently said, in urging the people of the Fatherland to put their savings in the eight German war loans, that Germany's financial position was more favorable than that of the Allies.

"The financial position of Germany," the foremost Teutonic banker said, "is more favorable than that of our enemies. Germany's war expenditure up to the present time has been about 107 milliards of marks, of which 70 per cent is covered by long date loans. In England the percentage is only 58."

German Indemnity Depends on Victory

"The greater part of the war expenditure is productive and is economically employed in our country. It therefore represents no loss. Whether we obtain a war indemnity or not cannot be said. That depends on victory which we have yet to win, but the bankruptcy of the German Empire is unthinkable so long as our enemies do not succeed in smashing us. (This speech was made before Foch took the initiative and foreshadowed the smashing of the enemy.)

"One condition, however, must be fulfilled—the freedom of competition. A free way for German war in the whole world must again be won. Then we shall be able to carry our war expenditure more easily than either England or France. Over the door of Germany's future stand the words, 'Work

twice as hard and save twice as much. Then we shall master the future as we mastered the past."

A less rosy view of the German financial outlook was taken in a pamphlet recently published by the Industrial Union of Saxony on German debt. It is one of the most important industrial organizations in the land of Wilhelm, and its remarks are therefore worth serious attention. After pointing out that the war had added 14,800,000,000 marks to the peace expenditure of 4,000,000,000 marks, it said:

Economic Strangulation Faces the Enemy

"This total would absorb 60 per cent of the whole national income. Capitalized at 5 per cent, it would then amount to more than the entire present wealth of Germany. Such a burden would completely paralyze production and all spirit of enterprise and completely ruin our life.

"Our foes are considerably better off in this respect. They need entertain no such apprehension, as their own countries and colonial possessions afford rich natural resources of valuable raw materials and millions of workers, while Germany is dependent upon herself."

All generalizations about financing in this war remain controversial, except perhaps that financially the Allies are infinitely better off. As the fourth anniversary of the war approaches, the general average of conditions among the Allies is heightened by the position of the United States, which relatively has, of course, just begun to scratch the surface of her resources.

Moreover, Great Britain has succeeded in following a pay-as-you-go policy to a greater extent than any of the other belligerents that have seen four years of fighting. More than one-fourth of Great Britain's war expenditures, including loans to her allies, have been met by taxation. France and Italy, bolstered by American credits, seem robust financially, compared with the four powers of Central Europe.

Gambling With Finances Of Teuton Alliance

Only a Herr Haverstein can find solace in the fact that Germany's war expenditures have been made up of a larger proportion of long term loans than England's. His attitude reveals the German plan of war finance. "After us the deluge," seems to be the slogan of the men in charge of German destinies. They feel that their war financing is successful as long as they can postpone the time of reckoning. They are gambling on the fast diminishing possibility of Germany's militarists' making conquests and reaping in indemnities before the Fatherland will have to settle its debts. The Central Powers long ago lost their breath financially, but they seem to have effectively caught their second wind, and may perhaps be able to keep up the race as long as their armies can strike out. But as soon as the bracing tonic of the war is over, their financial heart action may suddenly stop.

It is not the purpose of this discussion to exploit opinions about the financial strategy of the war, but to present in concise form the data which furnish the basis for judgments. This is to be a compact picture of the financial status of the leading belligerents after four years of fighting.

And even this is almost an insurmountable task at the present time. The censorship has made it difficult to ascertain the true condition of the finances of the Central Powers. Moreover, in many countries the finance ministers have perhaps been desirous of concealing truth rather than revealing it in their public statements. Where conditions are precarious the managers of public finance have sedulously tried to avoid giving that impression. In Germany the government has given the people promises without limit for their money. The people of the Allied countries, when called upon to contribute, were told how much it would cost to free the world of militarism and autocracy.

Inflation Expands Cost of the War

And incidentally, like most things, the price of war has gone up. It costs a nation much more to fight now than it did in 1914. Inflation is a factor here. Moreover, as the war went on it began to cover a longer and larger area and to affect more people. The larger offensives on the battlefield soon introduced new high marks in the consumption of wealth. In fact, the people of the world have never spent as much money on any other single enterprise as they have on this war. Calculation at this time of the number of canals that could have been constructed, and lands irrigated, slums wiped out, social and educational experiments carried on, drugery eliminated would for all practical purposes be like crying over spilled milk. Yet in the future, perhaps, when the people are considering cost in connection with the adoption of some great humanitarian, constructive reform, their boldness and financial courage may be greater because of the adventure in spending that they have had in the last four years.

The trend of daily war expenditures is illustrated by Great Britain's record. In the first six months of the war the average daily cost was \$10,000,000. It grew in the fiscal year 1915-16 to \$19,450,000, and in 1916-17 to \$27,550,000. At present Great Britain's daily expenditure approximates \$35,000,000. The

daily rate in France in the first year of the war was \$11,300,000, and it now exceeds \$22,000,000. For the first year Italy fought her daily expenditures averaged \$3,000,000, against \$12,000,000 at the present time. Germany's daily cost in the early days of the war was \$18,000,000 and now it is estimated at \$31,250,000. Austria's daily rate in 1914 was \$5,000,000, against \$13,500,000 a day four years later.

Europe's Debt Reaches \$200,000,000,000

The debt of the European nations has multiplied so rapidly that the interest charges and sinking fund charges now exceed the aggregate public debt of the Continent before the war. According to the estimate of M. Alfred Neymarck, a distinguished French statistician, the present monthly expenditure of the European nations is twice as large as their yearly outlay in 1912. This same authority recently estimated that, whereas the public debt of all Europe in 1914, before the war, was about \$29,000,000,000, it now approaches \$200,000,000,000.

Economic changes such as are here suggested make a return to the status quo ante-bellum impossible, even if it were desirable. The war has wrought fundamental changes in the structure of society. Peoples with debts around their necks, such as they will have when peace comes, cannot resume "living as usual" after the manner of the ante-bellum days. The president of the Reichsbank touched the pulse of a striking truth when he said that the German people would have to work twice as hard and save twice as much to meet their new obligations. When the thrill of war is over it is questionable whether even the notoriously docile German people will care to perform such miracles without at least the compensation of being free of any master.

Bankers who are trying to face the economic future realistically point out that there are likely to be compensations on the balance sheet to ease the financial strain in all belligerent countries. For example, if the maximum war aims of the United States and her allies are attained, and it becomes feasible vastly to curtail armaments, the nations of Europe will be spared enormous burdens which they had to carry in the years of "latent warfare" before 1914.

Inquiry into the financial condition of the belligerents becomes more valuable when each country is considered separately. Because of varying national resources and wealth and varying importance in the war, each of the leading belligerents is confronted with problems which are peculiar to itself.

Germany's total debt, funded and unfunded, as disclosed in the latest statements from the German Finance Ministry, now is approximately \$34,000,000,000. Germany's eight war loans alone produced obligations exceeding \$20,000,000,000. Her debt at the time the war started was \$5,200,000,000. The per capita debt in 1914 was \$76.45, against \$500 on August 1, 1918. The interest charges on Germany's debt in 1914 amounted to \$208,000,000, of \$3.08 per capita. In 1918 the interest charges are estimated at \$1,500,000,000, or \$22 per capita. The total war credits voted by the German Reichstag amount to \$29,512,000,000, and it is about to vote a new credit of 15,000,000,000 marks.

Among the Allies England was the centre of economic strength for the first three years of the war. Now, England, according to a recent statement by Mr. Bonar Law, is able to support herself, but finds it necessary to shift the burden of advancing loans to the Allies to the United States.

In figuring Great Britain's debt authorities in the United Kingdom count half of the advances to the Allies as debt. In discussing the reason for this the London "Statist" pointed out: "This country (Great Britain) has had in the course of the war to lend very largely to the Allies and to the dominions. The dominions will, of course, meet their obligations. But several of the Allies cannot possibly do so—such, for example, as Belgium, Serbia, and so on. Consequently it is extremely probable that a very large part of the advances made by this country to the Allies will have to stand over for several years. The position of this country whenever the war comes to an end will be that we have lent very large sums to other peoples who will not be in a position to pay until they recover, to some extent, at all events, their old prosperity."

"Our real difficulty will be during the first half dozen years after the restoration of peace. In a dozen years we may reasonably hope that we shall have got over our worst difficulties, and probably trade will once more be active and profitable. In twenty years we may hope that it will matter comparatively little to us whether the debts due to us are or are not returned. It is necessary to bear all this in mind if we would thoroughly understand the difficulties in which we shall find ourselves when the war is over."

Great Britain's debt now, excluding one-half of her advances to allies, is approximately \$27,700,000,000, or \$589 per capita, compared with \$350,000,000, or \$74.50 per capita on August 1, 1914. The debt charges of that country this year approximate \$1,385,000,000, or \$29.50 per capita, against \$150,000,000, or \$3.19 per capita four years ago.

The following table summarizes the growth of Great Britain's debt:

GERMANY			
Total Debt		Per Capita Debt	
Aug. 1, 1914	Aug. 1, 1918	Aug. 1, 1914	Aug. 1, 1918
\$5,200,000,000	\$34,000,000,000	\$76.45	\$500
Interest Charges		Per Capita Interest Charges	
Aug. 1, 1914	Aug. 1, 1918	Aug. 1, 1914	Aug. 1, 1918
\$208,000,000	\$1,500,000,000	\$3.08	\$22
Average Daily War Cost		Per Capita Average Daily War Cost	
Aug. 1, 1914	Aug. 1, 1918	Aug. 1, 1914	Aug. 1, 1918
\$10,000,000	\$35,000,000	\$1.10	\$3.90

GREAT BRITAIN			
Total Debt		Per Capita Debt	
Aug. 1, 1914	Aug. 1, 1918	Aug. 1, 1914	Aug. 1, 1918
\$3,500,000,000	\$27,700,000,000	\$74.50	\$589
Interest Charges		Per Capita Interest Charges	
Aug. 1, 1914	Aug. 1, 1918	Aug. 1, 1914	Aug. 1, 1918
\$150,000,000	\$1,385,000,000	\$3.19	\$29.50

THE STAGGERING BURDEN OF WAR DEBTS

Belligerent.	Present debt.	Per capita debt.	Interest charges.
Germany	\$34,000,000,000	\$500.00	\$1,500,000,000
Austria-Hungary	18,000,000,000	340.00	900,000,000
Great Britain	27,700,000,000	589.00	1,385,000,000
France	27,000,000,000	675.00	950,000,000
Italy	7,527,000,000	209.00	283,000,000
United States	7,000,000,000	63.63	499,611,320

years ago of \$3,995,000,000, or \$73 per capita. Moreover, the interest charges in 1918 will amount to \$1,500,000,000, or \$14 per capita, against \$148,000,000, or \$2.75 per capita, in 1914.

The indebtedness of Austria alone exceeds \$13,000,000,000. The purely military war expenditures of Austria in the first four years reached \$7,726,000,000, and for the fifth \$2,400,000,000 is asked. If the war lasts through another year, the Austrian finance minister estimates that war costs will reach \$4,866,400,000 for the twelve months. Advances from the Austro-Hungarian Bank have played an important part in the financing of the Dual Monarchy. Austria-Hungary, because of the condition of her credit, has consistently been compelled to pay a higher rate of interest for her eight war loans than have the United States, Great Britain, France, Germany and Italy.

An analysis of the financial condition of the Dual Monarchy follows:

Austria-Hungary			
Total Debt		Per Capita Debt	
Aug. 1, 1914	Aug. 1, 1918	Aug. 1, 1914	Aug. 1, 1918
\$3,995,000,000	\$13,000,000,000	\$73	\$180
Interest Charges		Per Capita Interest Charges	
Aug. 1, 1914	Aug. 1, 1918	Aug. 1, 1914	Aug. 1, 1918
\$148,000,000	\$1,500,000,000	\$2.75	\$22
Average Daily War Cost		Per Capita Average Daily War Cost	
Aug. 1, 1914	Aug. 1, 1918	Aug. 1, 1914	Aug. 1, 1918
\$10,000,000	\$35,000,000	\$1.10	\$3.90

France started the war with the exceedingly large per capita debt of \$162.50, but the rate of increase of her obligations was not so rapid as that of several of the other belligerents during the war and her present per capita debt is only \$675, compared with \$589 of Great Britain, whose per capita debt in 1914 was \$74.50. France's aggregate debt on August 1 next will be approximately \$27,000,000,000, against \$6,500,000,000 in August, 1914.

The analysis of France's debt rise follows:

FRANCE			
Total Debt		Per Capita Debt	
Aug. 1, 1914	Aug. 1, 1918	Aug. 1, 1914	Aug. 1, 1918
\$6,500,000,000	\$27,000,000,000	\$162.50	\$675
Interest Charges		Per Capita Interest Charges	
Aug. 1, 1914	Aug. 1, 1918	Aug. 1, 1914	Aug. 1, 1918
\$275,000,000	\$950,000,000	\$6.87	\$27.25
Average Daily War Cost		Per Capita Average Daily War Cost	
Aug. 1, 1914	Aug. 1, 1918	Aug. 1, 1914	Aug. 1, 1918
\$11,300,000	\$35,000,000	\$1.13	\$3.90

France has had only three internal war loans during the war, depending largely on arrangements with the Bank of France to carry on its finances. From the United States the French Republic has received advances of \$1,765,000,000, and was a heavy sharer in England's loans to the Allies, which in the aggregate totalled \$7,486,000,000.

Sound Financing By Italians

Italy, whose emergence as a nation of supreme importance was retarded before the war by exceedingly heavy expenditures for war preparations and in the colonial field, has been wisely trying to adopt sound measures of war finance. Advances from her allies have enabled her to keep her demands on her own population within attainable limits. It is now the fixed Italian fiscal policy to pay increased interest out of higher taxes instead of resorting to the dangerous German practice of contracting new debts for that purpose. Italy's chief increase in war expenditures is due to a higher debt service and to the payment of an ever growing number of pensions.

In 1914 Italy, then a neutral, had a debt amounting to \$2,748,105,941, which was \$76 per capita. On August 1, 1918, her debt will be about \$7,527,000,000, or \$209 per capita. More than one-third of Italy's debt is unfunded.

The following analysis summarizes Italy's record in financing the war:

ITALY			
Total Debt		Per Capita Debt	
Aug. 1, 1914	Aug. 1, 1918	Aug. 1, 1914	Aug. 1, 1918
\$2,748,105,941	\$7,527,000,000	\$76	\$209
Interest Charges		Per Capita Interest Charges	
Aug. 1, 1914	Aug. 1, 1918	Aug. 1, 1914	Aug. 1, 1918
\$93,300,000	\$283,000,000	\$2.60	\$8
Average Daily War Cost		Per Capita Average Daily War Cost	
Aug. 1, 1914	Aug. 1, 1918	Aug. 1, 1914	Aug. 1, 1918
\$3,000,000	\$12,000,000	\$3.00	\$12.00

Though Russia is no longer a belligerent and her financial condition may have no relation to the winning of the war, several leading items in her fiscal record are of importance, particularly in view of the recognized need of rehabilitating Russia. The present value of the ruble is so greatly depreciated that it would be misleading to express the Russian debt in American money. The ruble intrinsically is worth 51.5 cents, Russia's total expenditures in the three and one-half years she was in the war reached \$1,450,700,000 rubles (about \$25,725,000,000 in normal times), and her total debt when she withdrew from the war exceeded \$9,287,809,698 rubles (about \$24,643,904,849), against \$9,883,309,698 rubles (about \$4,944,154,849) in 1914. The United States advanced \$325,000,000 to Russia.

The United States' place among the belligerents is unique. The comparatively short time she has been in the war, the large proportion which advances to Allies make of the total moneys raised since April 6, 1917, and the tremendous wealth of the nation distinguish the United States from all the other leading belligerents.

Since entering the great war the United States raised \$15,915,283,000 in excess of the normal government income in the following ways:

Source of Funds	Amount
Raised by Liberty Loans	\$9,985,283,000
Certificates outstanding	1,500,000,000
War savings certificates	430,000,000
Raised by revenue	4,000,000,000
(Increase over normal government revenues attributable to war)	
Total raised to date	\$15,915,283,000

THE AMERICAN BALANCE SHEET			
Expenditures include Loans to Allies amounting to date of \$5,835,314,750 out of total credits of \$6,380,040,000, extended as follows:		Per Capita Debt	
Aug. 1, 1914	Aug. 1, 1918	Aug. 1, 1914	Aug. 1, 1918
\$3,500,000,000	\$27,700,000,000	\$74.50	\$589
Interest Charges		Per Capita Interest Charges	
Aug. 1, 1914	Aug. 1, 1918	Aug. 1, 1914	Aug. 1, 1918
\$150,000,000	\$1,385,000,000	\$3.19	\$29.50

When the United States entered the war its national debt equaled \$1,000,000,000, or \$3.09 per capita. It now amounts to \$7,000,000,000, including war stamps and temporary certificates of indebtedness outstanding, or \$63.63 per capita. Interest on the debt before the war amounted to \$23,000,000 a year, or \$0.21 per capita, and now it totals \$499,611,320, or \$34.24 per capita. The debt is given exclusive of loans to Allies, but the interest rate is figured on the gross indebtedness including loans

Per Capita Interest Charge			
1914	1918	1914	1918
\$3.19	\$29.50	\$3.19	\$29.50

Average Daily War Cost			
1914	1918	1914	1918
\$10,000,000	\$35,000,000	\$1.10	\$3.90

Per Capita Interest Charge			
1914	1918	1914	1918
\$3.19	\$29.50	\$3.19	\$29.50

Per Capita Interest Charge			
1914	1918	1914	1918
\$3.19	\$29.50	\$3.19	\$29.50

Per Capita Interest Charge			
1914	1918	1914	1918
\$3.19	\$29.50	\$3.19	\$29.50

Per Capita Interest Charge			
1914	1918	1914	1918
\$3.19	\$29.50	\$3.19	\$29.50

Per Capita Interest Charge			
1914	1918	1914	1918
\$3.19	\$29.50	\$3.19	\$29.50

Per Capita Interest Charge			
1914	1918	1914	1918
\$3.19	\$29.50	\$3.19	\$29.50

Per Capita Interest Charge			
1914	1918	1914	1918
\$3.19	\$29.50	\$3.19	\$29.50

Per Capita Interest Charge			
1914	1918	1914	1918
\$3.19	\$29.50	\$3.19	\$29.50

Per Capita Interest Charge			
1914	1918	1914	1918
\$3.19	\$29.50	\$3.19	\$29.50

Per Capita Interest Charge			
1914	1918	1914	1918
\$3.19	\$29.50	\$3.19	\$29.50

to the Allies. The United States debt statement follows:

Per Capita Debt			
1914	1918	1914	1918
\$3.09	\$63.63	\$3.09	\$63.63

Per Capita Interest Charge			
1914	1918	1914	1918
\$3.19	\$29.50	\$3.19	\$29.50

Per Capita Interest Charge			
1914	1918	1914	1918
\$3.19	\$29.50	\$3.19	\$29.50

Restricts Trading In Cotton Goods

Mills Lack Labor and Await Washington Decision on Differentials

Trading in cotton goods has been generally quiet at first hands. Differentials are being figured out at Wash-